

**FY 2004**

**TAX EXEMPT BONDS**

**WORK PLAN**

**Planning Guidelines**

**October 20, 2004**

# **FY 2004** **TEB WORK PLAN** **PLANNING GUIDELINES**

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# FY 2004

## TEB PLANNING GUIDELINES

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# **Executive Summary**

## **Tax Exempt Bonds**

### **FY 2004 Implementing Guidelines**

#### **Overview of Tax Exempt Bonds**

The mission of the Tax Exempt Bond (TEB) function of TE/GE is to fairly administer the Federal tax laws applicable to tax-exempt bonds and to provide TEB customers with top quality service, applying the tax law with integrity and fairness. TEB is involved in helping bond community members better understand their tax responsibilities by (a) developing tailored educational programs focused on bond industry segments, (b) monitoring non-compliance trends to design proactive education and outreach products, and (c) designing and implementing compliance programs and projects that foster voluntary resolution of infractions of the tax rules related to bonds.

TEB works closely with the Office of the Associate Chief Counsel (TE/GE), other offices within the Internal Revenue Service and the Department of the Treasury as well as other regulatory agencies, state and local government officials and others in the tax exempt bond community to encourage and achieve the highest degree of voluntary compliance with the law.

In FY 2004 TEB will continue to build and develop relationships with our customers, stakeholders, and partners in order to leverage our limited human and financial resources to accomplish our mission. Additionally, emphasis will continue to be placed on emerging areas of concern and continuing investigations into arbitrage motivated and/or abusive transactions. It is anticipated that examination FTE applied to arbitrage motivated and/or abusive transactions will continue to increase in FY 2004. These Implementing Guidelines direct how TEB will apply its staffing to the Outreach Planning and Review (OPR) and Field Operations (FO) programs. The guidelines describe the work of the Director TEB, the staff of OPR and the staff of FO, and direct the priorities of those functions to specific goals and priorities for this fiscal year.

#### **Outreach Planning and Review (OPR)**

The OPR function is primarily responsible for the development and coordination of the Tax Exempt Bond Voluntary Closing Agreement Program (TEB VCAP) as well as the development of an ongoing Outreach Program designed to better identify, provide guidance to, and otherwise address the needs of the various customer groups that comprise the bond community.

OPR develops project initiatives, updates the Internal Revenue Manual (IRM) and Revenue Procedures, prepares taxpayer and employee education and training materials, handles general information requests and referrals, coordinates with the Office of Associate Chief Counsel to provide legal guidance, maintains the TEB website, and performs program planning and evaluation functions.

## **Voluntary Closing Agreement Program (VCAP)**

TEB has expanded its preexisting voluntary closing agreement program (TEB VCAP). In expanding TEB VCAP the Service seeks to encourage issuers, conduit borrowers and other parties to bond transactions to exercise due diligence and to attempt to correct any issuance and post-issuance infractions of the applicable sections of the Internal Revenue Code and regulations. This expansion reflects the Service's continuing policy of taxing bondholders only as a last resort and TEB's desire to resolve tax-exempt bond infractions with other parties to the bond transactions.

Voluntary closing agreement requests from anonymous parties as well as requests on behalf of multiple issuers and issues are encouraged if a sufficient description of the appropriate facts and circumstances leading to the infraction are provided to the Service. OPR will continue to consider comments from the bond community with respect to how the VCAP program can be improved.

## **Outreach**

It is TEB's highest priority to communicate effectively with the diverse membership of the Municipal Bond Community. The TEB customer base has been organized into four groups with sixteen sub-groups and sixty-four customer organizations that represent the major participants in the tax-exempt bond market:

- Legal Counsel
- Issuers and Conduit Borrowers
- Municipal Bond Market Participants Groups
  - ◆ Investors
  - ◆ Underwriters and Financial Advisors
  - ◆ Rebate Consultants, Auditors & Other Professionals
  - ◆ Media & Communications
- Federal and Quasi-Governmental Regulatory Agencies

TEB will continue to develop partnerships with state and local government officials, regulatory agencies, industry, and national professional associations, as well as their state and local affiliates and members within each of our customer segments. TEB management and staff members provide formal and informal technical assistance to bond community members, participate in meetings, workshop, seminars and conferences, prepare submissions for newsletters and provide other types of assistance as requested. A database has been developed to track, record and coordinate TEB Outreach activities. OPR will continue to improve this database in order to enable TEB to evaluate and improve its Outreach program and make the best use of its resources.

## **Field Operations (FO)**

The focus of the FO function is to identify and correct noncompliance with fairness and the highest level of integrity. Examinations are conducted at the issuer level, consistent with the continuing policy to avoid taxing individual bondholders. The goal of the TEB FO examination

program is to assist issuers in up front compliance with the tax law. The FO staff is geographically dispersed in 20 states and 31 cities. TEB FO personnel throughout the country are active not only in conducting examinations but also are active in assisting in the delivery of outreach to the Bond community. FO continuously evaluates and revises TEB examination procedures and identifies improvements of the existing AIMS and RICS systems to accurately reflect TEB data on examination programs. Managers in FO will continue to determine which audit technique is appropriate for a particular case based on the potential issues involved, the scope of the examination and the most effective way to gather required information.

FO uses section 6700 and other alternative mechanisms to address potentially abusive transactions. FO focuses on questionable bond transactions, concentrating efforts on emerging issues and focus areas in the tax exempt bond community including pool bonds, small issue bonds, single and multi-family housing, solid-waste, yield burning, etc. In FY 2004 TEB FO will spend additional resources to increase activities relating to arbitrage motivated and/or abusive transactions.

### **FY 2004 Focus Areas**

The FY 2004 operating priorities of TEB are:

- Developing and maintaining a highly qualified workforce;
- Providing a quality work environment for TEB employees;
- Maintaining partnerships with customer and stakeholder groups;
- Collecting data from Customer Satisfaction Surveys and Focus Groups to identify areas for improving service;
- Implementing improvements based on employee satisfaction surveys;
- Enhancing quality review standards for TEB examinations;
- Developing a strategy to enhance return processing to increase the amount of return data available either through imaging returns or processing returns utilizing scanning (OCR) technology;
- Refining voluntary compliance resolution guidelines, programs and procedures;
- Applying examination resources to timely conduct compliance program initiatives and address and resolve emerging issues; and
- Continuing emphasis on conducting quality examinations and applying IRC 6700 penalties, when appropriate;

## ATTACHMENT II

### TEB Planning Process

#### Integration of Budget Planning with Work Planning

The IRS strategic and planning process is designed to integrate resource allocation with strategic and program planning to determine the effective use of those resources. The office of Tax Exempt Bonds is responsible for developing the related segments for the following components:

- a) Strategic Plan – The Strategic Plan identifies specific trends, issues and problems (TIPs), and details the strategies that will be applied to address them. The Plan summarizes the operating priorities and improvement projects for each approved TIP.
- b) Program Plan – A Program Plan is prepared by each Operating Division and functional unit. The Plan contains specific information about the scope and resource allocations proposed for the programs that support the major strategies, operational priorities, and improvement projects in each area.
- c) Work Plan – The Work Plan is a fiscal year plan of how resources will be applied to programs that support the major strategies and operational priorities of the Operating Division and functional unit. The plan identifies planned staff days/FTEs by budgetary categories (i.e., budget activity codes (BACs) and program activities codes (PACs)). The Plan also identifies planned return examination closures, customer education and outreach activities, and compliance research activities.

These three plans are linked through a structural planning and budget layout of the following codes.

- **Budget Accounting Codes (BAC)** (Pre-filing Services and Compliance Services)
  - **Program Accounting Codes (PAC)** (subcategories within each BAC)
    - **Activity Codes (AC)** (Technical Time and AIMS activity codes)
      - **Project Codes (PC)** (Technical Time and AIMS project codes)

#### Operating Priorities

The Operating Priorities included in the FY 2004 TE/GE Strategic Plan that were included in both the GE Program Plan and the TEB Program Plan and used in formulating the TEB FY 2004 Work Plan are:

- Developing and maintaining a highly qualified workforce;
- Providing a quality work environment for TEB employees;
- Maintaining partnerships with customer and stakeholder groups;
- Collecting data from Customer Satisfaction Surveys and Focus Groups to identify areas for improving service;
- Implementing improvements based on employee satisfaction surveys;
- Enhancing quality review standards for TEB examinations;

- Developing a strategy to enhance return processing to increase the amount of return data available either through imaging returns or processing returns utilizing scanning (OCR) technology;
- Refining voluntary compliance resolution guidelines, programs and procedures;
- Applying examination resources to timely conduct compliance program initiatives and address and resolve emerging issues; and
- Continuing emphasis on conducting quality examinations and applying IRC 6700 penalties, when appropriate;

To accomplish the TEB FY 2004 operating priorities OPR will:

- Enhance nationwide education and outreach programs for TEB customers and stakeholders;
- Identify and develop educational materials for TEB customers and stakeholders;
- Plan, develop and prepare the annual TEB Program and Work Plans and monitor the accomplishment of goals and objectives;
- Work TEB's voluntary closing agreement submissions (TEB VCAP) and expand and improve TEB's compliance resolution programs, as appropriate;
- Coordinate and deliver FY 2004 Continuing Professional Education training program.
- Review and revise the TEB returns and instructions as required by changes in law or as necessary to streamline processes;
- Revise and develop TEB training materials, as appropriate;
- Further expand the TEB Website to meet needs of customers and stakeholders;
- Expand and revise current operational guidelines, delegation orders and other internal procedures and policies to reflect changes in the TEB program;
- Identify, coordinate and work formal published guidance projects when appropriate;
- Identify and implement special projects and compliance programs;
- Coordinate the development of quality measurement standards;
- Conduct sample and mandatory reviews of examination cases;
- Maintain third party contact database;
- Maintain Outreach contacts database and analyze management information reports generated from the database for outreach reporting and planning purposes;
- Establish and close examination cases on the Audit Information Management System (AIMS) via IDRS;
- Analyze AIMS reports and registers of open and closed cases, reconcile discrepancies and unpostables, and conduct Inventory Validations at least once a year;
- Process unagreed protested cases to Appeals and make appropriate adjustments via reports or statutory notices of deficiency to bondholder returns;
- Maintain a statutory notice suspense file;
- Maintain an IRC 6700 case database and coordinate results of examinations with LMSB Office of Tax Shelter Analysis; and
- Analyze, review and process referral submissions.

To accomplish the TEB FY 2004 operating priorities FO will:

- Timely conduct existing compliance project initiatives;
- Identify and apply resources to emerging issues, including arbitrate motivated and/or abusive transactions;



- Timely conduct tax promoter penalty (IRC section 6700) examinations, as appropriate, of applicable issuers, bond counsel, conduit borrowers, underwriters, etc;
- Implement new compliance project initiatives;
- Assist in the delivery of outreach programs with internal and external TEB customers;
- Assist in the delivery of TEB training programs; and
- Assist in the enhancement of quality measurement standards developed for examinations.

## **Management Information Reports (MIRs)**

The time expended by TEB technical and managerial employees is accounted for through the ETS time reporting system. Monitoring will be accomplished utilizing the various tables from the ETS system.

Monthly and quarterly AIMS reports, extracts from the TEB Outreach Reporting System, the TEB OPR Inventory Spreadsheets, and quarterly reports from OPR and FO will be used to monitor activities and accomplishments.

## **Performances Measures**

The tools to measure the use of resources allocated to TEB for FY 2004 are the following Balanced Business/Performance Measures listed by PAC:

### **Taxpayer Communication and Education**

#### **Performance Measures**

Business Results measures are:

Quantity

Time Applied to TEB Education and Outreach

Number of Outreach Events

Customers Reached

VCAP Cases Closed

Customer Satisfaction data gathered on Outreach Activities

Employee Satisfaction measure is available through Survey 2003

### **Tax Reporting Compliance-Field Examinations**

#### **Performance Measures:**

Business Results measures are:

Quantity

Time Applied to TEB Examinations

Examinations Closed

Quality

Examination Timeliness (Cycle Time)

TEB quality standards (TEB – EQMS)

Employee Satisfaction measure is available through Survey 2003

## **Risk Assessment**

Risk assessment analysis supports TEB's continuing efforts toward completion of existing project initiatives and development and implementation of additional project initiatives. The assessment process also prioritized potential areas of noncompliance. The initial TEB risk assessment analysis relying on Statistics of Income (SOI) data for tax years 1987-1995 was useful and revalidated. SOI data regarding TEB filings for 1996 – 1998 has been requested and will be used to update the TEB risk assessment. Each type of bond issue is considered as a separate market segment and assigned a rating potential for noncompliance of low, medium or high risk. Future examination activities will be based on this analysis as well as staffing, available guidance and other relevant factors. For FY 2004, field personnel will be applied in such a manner as to ensure timely completion of existing projects and prompt action on emerging issues. In addition, TEB may initiate one or more new compliance initiatives after taking into account TEB's increasing activities relating to arbitrage motivated and/or abusive transactions.

## **ATTACHMENT III**

### **Prefiling Taxpayer Assistance and Education**

#### **Taxpayer Communication and Education**

##### *TEB Communication, Education & Outreach (CE & O) Planning Guidelines*

### **Overview**

Outreach, Planning & Review (OPR) will focus on providing the participants in the municipal bond industry with quality service to assist in understanding their tax responsibilities by continuing to conduct tailored educational programs focused on bond industry segments, monitoring non-compliance trends to design proactive education and outreach products for use by TEB customers, and designing and implementing compliance programs and projects that foster voluntary resolution of infractions of the tax rules related to bonds.

The TEB OPR staff is responsible for:

- Developing and monitoring annual work plans for both the education and outreach program and the compliance program,
- Enhancing education and outreach programs with external stakeholders,
- Coordinating with FO availability of speakers and the delivery of presentations as panel members or participants in stakeholder meetings, workshops, seminars, training sessions, etc.,
- Continuing to develop and issue specialized educational materials and publications to reduce burden on the various bond market segments, especially small issuers, using TEB external partnerships to electronically disseminate informational materials to members of the bond community,
- Expanding the TEB Internet and Intranet sites and otherwise leveraging technology to meet customer and FO needs,
- Conducting and implementing recommendations from Focus Groups of TEB stakeholder segments,
- Working VCAP submissions,
- Designing and implementing other voluntary compliance programs and revising VCAP as necessary,
- Identifying and implementing special projects and compliance programs,
- Implementing and evaluating project initiatives to determine compliance levels and to identify emerging trends and issues,
- Delivering training to TE/GE Customer Account Service (CAS) personnel for their use in answering TEB inquiries,
- Coordinating with Customer Account Services (CAS) return filings, taxpayer inquiries, revisions to Form 8038 series returns, and the anticipated increase in FY 2004 - 2007 return filings due to the IRC section 146 changes,
- Developing, issuing and delivering guidance to both internal and external customers,
- Coordinating with the Tax Exempt Bond Branch of Chief Counsel on administrative and technical matters which involve published guidance or technical support,

- Coordinating legislative proposals with internal and external offices and agencies, including the annual “Legislative Proposals” submission by IRS,
- Establishing and closing of examination cases on the Audit Information Management System (AIMS),
- Perfecting inventory control of examination cases through the reconciliation of inventory reports (AIMS and group quarterlies) and conducting inventory validations,
- Expanding stakeholder contacts to broaden outreach activities,
- Developing outreach procedures, guidelines, and training for outreach personnel to ensure that accurate data is gathered to measure outreach accomplishments;
- Expeditious processing of protested cases to Appeals and discrepancy adjustments of bondholder and conduit borrower returns,
- Maintaining and updating the third party contact database,
- Coordinating the case openings and results of the IRC 6700 penalty cases with the LMSB Office of Tax Shelters, and
- Expeditiously analyzing referral submissions and forwarding approved submissions to the Field Operations Manager for assignment.

TEB, FO Staff is responsible for:

- Assisting in the delivery of outreach programs by participation in seminars/meetings and partnering with outside stakeholders,
- Encouraging use of VCAP by issuers and conduit borrowers to protect innocent bondholders,
- Assisting in the development of the TEB annual work plan,
- Assisting in development of TEB voluntary compliance programs and modifications to VCAP, and
- Assisting in the delivery of training to CAS personnel in Ohio and Ogden to aid in the identification and development of responses to taxpayer inquiries.

Each TEB office should plan to fully support opportunities for education and outreach to customers in the various bond industry segments with a focus on assistance to smaller or infrequent issuers. Managers and their employees should participate in workshops, seminars, and meetings sponsored by bond industry groups and associations to effectively leverage limited TEB resources in educating customers about their filing requirements and operational responsibilities to ensure exemption throughout the life cycle of a bond issuance.

In FY 2004, OPR will evaluate the information accumulated through the TEB Outreach Reporting System and develop communications, education and outreach program enhancements. Continuing to publicize TEB VCAP to the bond industry is a major CE & O priority in FY 2004. TEB’s compliance activities relating to CE & O include contacts with customers other than during examinations. **Communications** involves contact through telephone and correspondence inquiries from the public, Congress and other stakeholder groups. **Education** involves contact with customers through IRS participation at conferences/seminars/ workshops and the delivery of speeches either individually or as part of a panel. **Outreach** involves contact with customers through newsletters, publications, websites and partnerships with customers and bond industry associations.

CE & O initiatives to provide education to customers will be identified through contacts with bond issuers and/or bond industry associations as part of a proactive educational effort. These initiatives will yield customer educational events (such as conferences/workshops and

speeches/panels). To fully support the identified customer educational events, all TEB technical employees are expected to deliver effective presentations at outreach activities and to represent TEB within their local customer community. OPR will centrally coordinate customer education and outreach activities to develop TEB's Website, foster stakeholder partnerships, and leverage existing resources to deliver information and services including educational publications. OPR will continue to coordinate the delivery of educational and outreach assistance to TEB customers. Such outreach efforts will include participation in conferences and seminars. OPR will also assess the need to develop workshops and will conduct educational programs, when appropriate.

### **Conferences/Seminars/Workshops**

Relates to conferences, seminars and workshops that are either sponsored or co-sponsored by IRS. Planning/coordination includes all activities that occur before the actual conference, seminar or workshop (Activity Code 126, Project Code 750). Delivery/Attendance includes the activities necessary to travel to/from and to attend the actual conference, seminar or workshop (Activity Code 126, Project Code 751).

### **Speeches/Panels**

Relates to employees attending non-IRS sponsored or co-sponsored conferences, seminars or workshops (i.e., external meetings), and either:

- delivering a speech or presentation individually or as part of panel group, or
- supporting the speech, panel presentation, conference, or workshop by networking at the event and/or assisting the IRS employee(s) delivering the speech or presentation.

Planning/coordination includes all activities that occur before the actual speeches/panels (Activity Code 127, Project Code 750). Delivery/Attendance includes the activities necessary to travel to/from and to attend the actual speech/panel (Activity Code 127, Project Code 751).

### **Educational Products and Resources**

OPR will assist TEB customers through the development and availability of educational products and resources. OPR will continue to develop and expand its Website as a one-stop resource to the municipal finance industry for technical assistance and information items. Available products will also be offered to customers through other IRS channels (e.g. IRS Distributions Centers).

The time spent on developing educational products and resources should be charged to Newsletters/Public Communication Documents/General Publications (Activity Code 132), Tax Forms/Form Letters (Activity Code 133), Websites (Activity Code 134), and News Releases and Announcements (Activity Code 137).

### **Partnering**

OPR will continue to develop customer partnership with key stakeholder associations representing customers from all market segments of the municipal finance industry. Such

partnerships will facilitate the ultimate delivery of educational products and information to individual customers as well as provide TEB with input for future CE&O initiatives.

The time spent on Partnering CE&O activities should be charged to Customer Partnership/Liaison (Activity Code 135).

### **Telephone Inquiries & Correspondence**

TEB offices should plan technical time to fully support and accomplish the necessary actions to ensure customer inquiries are efficiently and accurately handled. Support will be provided to handle:

- Telephone Inquiries (Activity Code 142)
- Correspondence Inquiries (Activity Code 143, Project Code 300 when assisting CAS, including R-mail; Project Code 301 when handling general customer inquiries)
- Congressional Inquiries (Activity Code 144)
- Taxpayer Advocacy Office Inquiries/Cases (Activity Code 145)

### **Voluntary Resolution Programs**

OPR will work documents submitted as part of the tax-exempt bond voluntary closing agreement program (VCAP) (Notice 2001-60, 2001-40 I.R.B. 304) and other voluntary resolution programs (e.g., Rev. Proc. 97-15, 1997-1 C.B. 635). OPR will continue to develop and expand its voluntary compliance programs.

### **Program Development**

OPR is responsible for developing the TEB segments of the TE/GE Strategic Plan and the GE Program Plan and the TEB annual Work Plan as well as the related budget aspects of each and the periodic monitoring of the delivery of accomplishments and fiscal expenditures. This includes updating the IRM and providing assistance to Appeals, Chief Counsel and Treasury.

### **Focus Group**

The TEB Focus Group provides recommendations to management on enhancements to the TEB program, to OPR on educational materials and publications and outreach programs, to facilitate quality examinations, and to ensure that examinations are conducted in a timely and efficient manner and result in consistent treatment of issues raised nationwide. The Focus Group includes agent and manager representatives from the FO groups, two OPR representatives, and representatives from Counsel and Appeals. The TEB Focus Group holds quarterly meetings and will conduct at least one visit to each Field Operations group and OPR during FY 2004. Each tax exempt bond agent and tax law specialist will participate in one such visit; the five groups and OPR may be combined for purposes of Focus Group visits. The format for a Focus Group visit provides for:

- a presentation by each agent and tax law specialist on cases in process,
- a combined discussion between agents/tax law specialists and the Focus Group on the analysis of the cases, and
- TEB Focus Group recommendations on further development or follow-up actions.

OPR representatives participating in the Focus Group visits will charge their time to Activity Code 316, Project Code 103. Field participation in the focus group meetings will be charged to Activity Code 707, Project Code 103.

## **Monitoring of Accomplishments**

Taxpayer Communication and Education objectives and measures will be monitored on a national basis for FY 2004. Technical Time Reporting System Table 14, TEB Technical Time Analysis (Staffdays/FTE and Plan) will be used to monitor FTE applied. Monthly extracts from the TEB Outreach Reporting System will be used to determine the number of Outreach Events and the Customers Reached. Quarterly Reports from OPR and FO, specific program/project reports, special purpose visits, as well as other means of communication, will also be used to monitor activities and accomplishments under this program.

Performance Measures for FY 2004 are as follows:

- Customer Satisfaction – Outreach Activities
- Employee Satisfaction
- Business Results
  - ◆ Quantity
    - Time Applied to TEB Education & Outreach
    - Number of Outreach Events
    - Customers Reached
    - VCAP Cases Closed

The number of VCAP Cases Closed is computed from submissions closed either through execution of a closing agreement, withdrawn, or otherwise resolved. Although one VCAP request may involve numerous issuances and the related closing agreement may cover these multiple issuances, the submission is counted as one receipt and one closed case.

## ATTACHMENT IV

### Compliance Services Tax Reporting Compliance – Field Examinations

#### *TEB Examination Planning Guidelines*

TEB will focus on identifying and correcting non-compliance, ensuring consistency and fairness in application of law, and resolving issues at the lowest possible level using appropriate resolution mechanisms.

TEB Field Operations is responsible for:

- Conducting examinations using standardized procedures and audit guidelines,
- Learning about the compliance level of market segments by conducting project initiatives and identifying emerging trends,
- Applying IRC section 6700 promoter penalties, where appropriate,
- Utilizing IRC section 150(b) as an alternative to taxing bondholders, where appropriate,
- Identifying best practices and recommending changes in procedures,
- Coordinating with other IRS functions,
- Recommending classification of returns related to general examination program activity,
- Implementing project initiatives,
- Assisting in the design and delivery of the basic and advanced training of field agents,
- Participating in the development and delivery of the annual CPE, and
- Assisting OPR in preparing necessary revisions or additions to the TEB IRM.

TEB Outreach Planning and Review Staff is responsible for:

- Expanding and revising current operational guidelines, delegation orders, and other internal procedures, as needed,
- Coordinating the selection of examination cases, including referrals, and approval of general classification cases;
- Conducting mandatory review (technical advice requests and cases being forwarded to Appeals),
- Reviewing cases selected for sample review,
- Enhancing TEB quality review standards (GE-TEBEQMS),
- Developing and delivering annual CPE training of TEB technical employees,
- Improving forms and related administrative revenue procedures in coordination with other responsible functions, and
- Assisting field personnel in the identification and development of complex and emerging bond issues to facilitate resolution at the lowest level.

#### **General**

For FY 2004, emphasis will continue to be placed on emerging areas of concern and continuing investigations into arbitrage motivated and/or abusive transactions. It is anticipated that examination FTE applied to arbitrage motivated and/or abusive transactions will continue



to increase in FY 2004. Training activities will be conducted, as necessary, to ensure consistent and uniform issue development and resolution.

FY 2004 will also include a continuing emphasis on resolving existing projects, such as, solid waste financings and multi-family and single family housing financings.

### **Audit Techniques**

The audit techniques for conducting examination activities are field, office, and correspondence. The managers in FO are responsible for determining which audit technique is appropriate for a case based on the potential issues involved, the scope of the examination, and the most effective way to gather required information.

### **Examination Categories**

For FY 2004, TEB resources will be focused as follows:

- Solid Waste Disposal Facilities (Project Code 113)
- Yield Burning (Project Code 117)
- Failure to Rollover Escrowed Securities to Zero Interest Rate State and Local Government Securities (Project Code 118)
- Loan Pools (Project Code 119)
- Tax and Revenue Anticipation Notes (Project Code 121)
- Use of Proceeds – Governmental Bonds – 8038-G Rebate (Project Code 123)
- Single Family Housing (Project Code 124)
- Multi-Family Housing (Project Code 125)
- Tax Promoter Penalties (Section 6700), (Project Code 128)
- Other financings under section 145 (Project Code 134)
- Penalty in Lieu of Rebate (Project Code 136)
- Forms 8038 -T project (Project Code 137)
- Use of Proceeds III (Project code 210)
- Federal Home Loan Bank federal guarantees (Project code 211)

These focus areas and other examination categories will be identified for technical time and inventory tracking reporting purposes through particular Activity Codes for the type of return and specific project codes.

<b><u>Activity Code</u></b>	<b><u>Return</u></b>
397	Form 8038
300	Form 8038-G
302	Form 8038-GC
309	Form 8038-T
309	Form 8038-R
322	Form 8328
394	Form 990-T

<b><u>Project Code</u></b>	<b><u>Description</u></b>
017	Forms 8038 examinations (includes Forms 8038, 8038-GC, 8038-T, 8038-R and 8328)
018	Non-EO Bond Compliance Activities
042	On-the-job Training Casework
050	EO Bond Compliance Activities
056	Tax Exempt Bonds Related Returns
076	Forms 8038-G Examinations (includes Forms 8038-T)
110	Small Issue Compliance Follow-up
111	Claims for Refund of Arbitrage Rebate
126	Identifying Bondholder Names-Case pending in Appeals
127	Identifying Bondholder Names-Case not pending in Appeals
128	IRC 6700 Issue
129	IRC 150(b) Issue
302	Form 1040
303	Form 1120

### **Selection of Returns**

TEB OPR is responsible for the selection of returns for examination. The Manager OPR works closely with the Manager FO and the FO group managers in identifying those bonds issuances that should be examined as part of general classification, selections from RICS, project initiatives, database research, related returns, assistance request, collateral examination, IRC 6700, referrals and information items.

TEB agents with the concurrence of their FO group manager, or the FO group manager independently may expand an open examination to include related returns or issuances by completing and forwarding a Classification Sheet to the Manager, FO (Source Code 05 returns).

Return selection by FO group managers from the Returns Inventory Classification System (RICS) or database research is regular/general classification. FO group managers will complete and forward a Classification Sheet for each of these returns to the Manager, FO. The Manager, FO will coordinate with the Manager, OPR in the review and approval or denial of these requests for examination (Source Code 20 returns).

The Manager OPR, will control referrals. A joint selection process between the Manager OPR and the Manager FO will be utilized in evaluating each referral to determine whether an examination is warranted. This will facilitate unbiased selection of cases for examination. The operating procedures on how to review, evaluate and preserve information items will be followed. When controlling a referral case on AIMS, the appropriate Source Code that reflects the initiator of the referral should be used. For instance, Source Code 60 should be used with respect to a referral from another TE/GE office. The appropriate Activity Code and Project Code for the type of examination matter referred should be used.

### **Coordination with Other Agencies**

FO and OPR will continue coordination with other Federal, state and local government and quasi-governmental agencies to identify and/or timely resolve compliance issues.

## **Claims**

Expeditious handling of claims for refund of arbitrage rebate continues as a FY 2004 priority. A separate AIMS Table will be available in FY 2005 to capture cycle time for claims processing using the “source code” (30 “Claim for Refund”, 31 “Paid Claims for Refund”).

## **Monitoring**

Examination objectives and measures will be monitored on a national basis for FY 2004. Functional objectives are identified below under the specific program, project, or emphasis area. The Technical Time Reporting System, AIMS, RICS, Quarterly Reports, monthly briefing submissions, specific program/project reports, special purpose visits, as well as other means of communication, will be used to monitor the accomplishment of FY 2004 Work Plan objectives and the applicable Performance Measures.

Performance Measures for FY 2004 are as follows:

- Quality
  - ◆ Employee Satisfaction
- Quantity
  - ◆ Time Applied to TEB Education & Outreach
  - ◆ Time Applied to TEB Examination
  - ◆ TEB Examinations Closed
  - ◆ TEB Examination Timeliness (Cycle Time)

(Case timeliness is measured from the time a return is placed in AIMS Status Code 12 (“assigned – taxpayer contacted”) to Status Close 90 (closed). The number of case timeliness days is computed by converting Examination Start Date Cycle (YYMM) to the 15th day of the month for that cycle and subtracting it from the Julian date of the Status 90 disposal date. The cycle time objective will include claims and exclude cases placed in suspense (Status Codes 30, 32, 34, and 38); and cases returned to an office by Appeals. AIMS Status Code 55 will be used to identify cases previously in suspense or returned to an office by Appeals for exclusion from the case timeliness calculation. Cases taken out of suspense (Status Codes 30, 32, 34 and 38) and cases returned from Appeals must be updated to Status Code 55. The FO Quarterly reports and a TEB AIMS Cycle Time Table will be used to monitor case timeliness accomplishments.

## **Research Program**

The TEB market segmentation is a systematic method to define the universe by conducting examinations of a sample of returns on a nationwide or geographic basis and reflecting results/conclusions from the samples in a profile of the applicable market segment. The objective of TEB market segmentation is to continually build information and knowledge through research samples on the compliance levels of various types of bond issuances in the exempt bond universe in order to direct compliance activities to areas of actual or suspected noncompliance.

Annually, the Director, TEB will conduct a meeting of the OPR Manager and the FO Manager to develop the subsequent fiscal year market segment project initiatives. Consideration will be given to identifying the proposed TEB samples, reviewing open samples scheduled for completion and the timetable for analyzing the results and findings, and coordinating activities necessary for starting and completing the proposed samples.

Five market segment initiatives were started in FY 2003.

- Section 142 Multi-Family Housing
- Section 145 Multi-Family Housing
- Penalty in Lieu of Rebate
- Open Market Escrow Identification
- Section 143 Single Family Housing

Other market segment initiatives may be initiated in FY 2004 if emerging financing strategies or compliance trends warrant.

### **Coordination with TE/GE Director of Research**

TEB is continuing to assess the compliance risk of the various market segments to determine what other project initiatives should be initiated for FY 2004 & future years. For FY 2004, TEB will devote most of its examination resources to the completion of existing TEB project initiatives, emerging issues, if any, and to TEB's increasing activities relating to the arbitrage motivated and/or abusive transactions.

## **ATTACHMENT V**

### **TEB TRAINING COURSES**

The following items are descriptions of TEB training courses:

#### **RESEARCH TRAINING**

##### **Course 4237: RICS – Phase I**

This training is a 5-day course (including training and travel time) based on the RICS Phase I Training Guide that covers RICS functionality for basic RICS users. The primary purpose of the training is to support the classification of TE/GE returns and TE/GE non-return units. This training is ideal for new TE/GE classifiers and other new RICS users.

##### **Course 4256: RICS – Phase II**

This training is a 5-day course (including training and travel time) based on the RICS Phase II Training Guide that covers RICS functionality for experienced RICS users. This training is for all experienced RICS users.

##### **Course 5108: Introduction to Specialized Research Software**

This training will teach participants how to use electronic software of a commercial tax service to research tax law, court cases, revenue rulings, finance industry publications, municipal bond information, and other tax related materials. The training provides advanced instruction and function-specific exercises.

#### **TEB TECHNICAL TRAINING**

##### **Course 4232: Basic Tax Exempt Bond Training – Phase I**

This training provides agents with the basic knowledge and skills necessary to conduct examinations of municipal financing arrangements. This course is three weeks in length. Training will be scheduled when hiring dictates the need for the class.

##### **Course 4259a: Advanced Tax Exempt Bond Training – Phase II**

This training provides agents with the advanced knowledge and skills necessary to conduct examinations of municipal financing arrangements. Topics include advance yield on bonds, yield on investments, allocation and accounting, reimbursements and refundings. This course is two weeks in length. Training will be scheduled when hiring dictates the need for the class.

##### **Course 4259b: Advanced Tax Exempt Bond Training – Phase III**

This training provides agents with more advanced knowledge and skills to conduct examinations of municipal financing arrangements. Topics include pooled financings, advanced arbitrage and rebate concepts such as hedge bonds, reissuance, advance refundings and financial products. This course is one week in length. Training will be scheduled when hiring dictates the need find for the class.

**Course 4233: TEB Technical Field Conference (CPE)**

This training will cover current technical and operational developments in the bond area. There will be discussions of significant issues under examination and techniques used to develop the issues. Training will be conducted in New Orleans in the 1<sup>st</sup> Quarter. The length of training is 5 course days (including training and travel time). The targeted audience is all TEB Technical Employees.

**TEB SPECIAL EMPHASIS TRAINING****Course 4259c: TEB Financial Products**

This training provides agents with the knowledge of the various financial products in the secondary market. The course is 8 hours and will be delivered, in segments, as part of the TEB Technical Field Conferences (CPE) over several fiscal years.

**Course 4259d: TEB Financial Products – Advanced**

This training provides agents with the knowledge of the more advanced financial products in the secondary market. The course is 8 hours and will be delivered, in segments, as part of the TEB Technical Field Conferences (CPE) over several fiscal years.

**Course 4283d: Tax Exempt Bonds Examination Quality Measurement System for Government Entities (GE- TEBEQMS) – Tax Exempt Bonds**

This training is for all agents and will focus on the new quality standards of GE-TEBEQMS and the scoring process. The training is approximately 2 hours in length and will be conducted as part of the FY 04 Technical Field Conference (CPE) or at group meetings in FY 2004.

**Course: Working Capital**

This training provides agents assigned working capital cases and their managers with the knowledge of the structure and requirements of bonds issuances to finance working capital expenditures. The course will consist of a review of assigned cases and discussion of techniques to develop the related issues. The training will be 24 hours and will be held in 4<sup>th</sup> Quarter.

**Course: 501(c)(3) Referrals**

This training provides agents assigned IRC 501(c)(3) referral cases and their managers with the knowledge of the structure and requirements of bond issued by IRC 501(c)(3) organizations. The course will consist of a review of assigned cases and discussion of techniques to develop the related issues. The training will be 24 hours and will be held in 2<sup>nd</sup> Quarter.

**Course: 8038-T Project Initiative**

This training provides agents assigned 8038-T initiative cases and the manager responsible for the initiative with the knowledge of the structure and requirements of the 8038-T initiative. The course will consist of a review of assigned cases and discussion of techniques to develop the related issues. The training will be 24 hours.

**Course: Student Loan Bond Project Initiative**

This training provides agents assigned student loan bond cases and the manager responsible for the initiative with the knowledge of the structure and requirements of student loan bonds.

The course will consist of a review of assigned cases and discussion of techniques to develop the related issues. The training will be 24 hours.

**Course: Rebate**

This course will provide agents training in the use of Excel spreadsheets to perform various calculations relating to arbitrage rebate, including computation of investment yield, valuation of investments, computation of rebate amount, yield reduction payment and various exceptions to the rebate requirement. The training will be 24 hours and be taught as part of a group meeting.

**Course 9952b: Negotiation & Conflict Resolution**

This course will provide TEB technical employees training in “interest-based approach” in negotiating resolution of examination and VCAP cases as well as interacting with others in the workplace to accomplish common goals. The training will be 16 hours, including travel, and be taught as part of a group meeting.

**REPORT GENERATION SOFTWARE (RGS) TRAINING**

**Course 4207a: EP/EO RGS (NT) Discrepancy Adjustments Training – Full**

This training will cover the technical and procedural aspects of discrepancy adjustments as well as the RGS training on using the new windows version of RGS software to perform discrepancy adjustments. The targeted audience and date to be held will be locally determined. The length of the training is 4 days (including training and travel time).

**Course 4248: RGS Coordinators Training**

This training provides the TEB Division RGS Coordinator with information concerning their responsibilities as division coordinator. One person from OPR or one from FO will attend this 16 hours course (including training and travel time).

## **ATTACHMENT VI**

### **TEB Form 5440**

The attached Form 5440 is applicable for FY 2004.